

TENNESSEE GENERAL ASSEMBLY  
FISCAL REVIEW COMMITTEE



**FISCAL MEMORANDUM**

**HB 3443 – SB 3415**

April 20, 2010

**SUMMARY OF AMENDMENT (016999):** Deletes the language of the original bill. Authorizes a development authority created by private act and designated in writing by its municipal housing and development authority to be considered a housing authority for the purposes of entering into economic development agreements until July 1, 2012. Authorizes redevelopment plans to apply Tax Increment Financing (TIF) provisions to parcels of land. Authorizes taxes paid by land owners to be used to finance the redevelopment of the property. Limits the amount of property tax allocated to the local general fund to the amount based on the assessed value in the year immediately preceding the approval of the redevelopment plan. Additional taxes accruing from higher reassessed values will be directed for debt service on the new development. Authorizes housing and redevelopment authorities to retain five percent of incremental revenue for administrative costs.

**FISCAL IMPACT OF ORIGINAL BILL:**

Other Fiscal Impact – Future incremental property tax revenue will be redirected from the general funds of participating local governments to development authorities for debt service on development projects. This bill is permissive and the number of projects is unknown. If two projects utilize this mechanism, there will be a permissive shift in local revenue in an amount exceeding \$40,000.

**FISCAL IMPACT OF BILL WITH PROPOSED AMENDMENT:**

**Unchanged from the original fiscal note.**

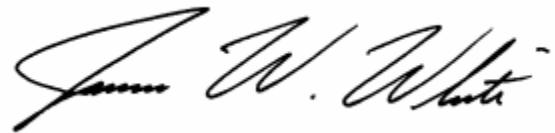
Assumptions applied to amendment:

- Property tax revenues will be frozen in the year prior to construction. Any incremental property tax revenue generated from a project will be used for debt service on bonds issued to finance development projects.
- Local governments will continue to collect property taxes at the frozen level until the term of the TIF has expired.

- Based on information provided by the Comptroller, there will be a two-year period of capitalized interest before any incremental value is earned and applied to bond debt service.
- It is unclear what the fiscal impact to local governments will be if, during a reassessment, property tax levels are assessed at a value below the previously frozen level.
- According to the Comptroller, the property tax rate is \$4 per every \$100 of assessed value. For every \$1,000,000 assessed value, the taxes generated will be \$40,000. The average property value after development will be \$1,500,000 and will generate \$60,000 in property tax revenue resulting in \$20,000 of incremental revenue.
- There will be a five percent administrative fee resulting in \$19,000 ( $\$20,000 \times 5\%$ ) of incremental revenue available for debt service.
- The average bond term is 20 years. When bonds have been satisfied, all incremental value will revert to the local general fund.
- It is not known how many projects will qualify under these provisions. It is assumed there will be two projects with a frozen assessed value of \$1,000,000 per property each year. The assessed property value after development will be \$1,500,000 per property resulting in total incremental revenue to local government that exceeds \$40,000 ( $\$20,000 \times 2$ ).
- Incremental revenue will be used for debt service payments for 20 years resulting in an increase to local government expenditures that will exceed \$40,000.
- In project year 21 and in each year there after, there will be an increase to local government revenues of \$40,000.

## **CERTIFICATION:**

This is to duly certify that the information contained herein is true and correct to the best of my knowledge.



James W. White, Executive Director

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